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CXBERLIN:

ACTION: POL POLMIL

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DISSEMINATION: POLMIL

CHARGE: PROG

APPROVED: POL: JBAUMAN

DRAFTED: POL: TSCHULZ

CLEARED: DAO: TMCCANDLESS; POL: JRATHKE; POL: KKERO; ECON: DNEUMANN

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INFO RUEHBSA/NATO SUPPORT ACTIVITY BRUSSELS BE

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RUEHZL/EUROPEAN POLITICAL COLLECTIVE

UNCLAS SECTION 01 OF 02 BERLIN 003468

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BERLIN 3145

SENSITIVE

E.O. 12958: N/A

TAGS: [NATO](#) [GM](#)

SUBJECT: Germany's FY 2007 Defense Budget: More Shadow than Light

Summary:

1. (U) The Bundestag approved a 472 million Euro increase of the MOD budget in FY 2007 on November 24, 2006. This marginal increase follows a series of nominal cuts in defense spending and exemplifies the continued low priority for defense: While the national budget will grow by 3.2 percent, defense spending will rise only by 1.9 percent, well below expected inflation for the upcoming year. Although Chancellor Merkel in September expressed the view that Germany should spend more on defense, this sentiment has not been fully realized. End Summary

How Much Extra?

2. (U) Compared to FY 06 the official budget will increase from 23.8 billion to 28.4 billion Euros. Of the additional 4.6 billion Euros, 4.2 billion Euros amount to a technical transfer of pension appropriations to the MOD's budget -- meaning no net gain from this substantial pot. The remaining 400 Euros million are devoted to the 3 percent VAT increase (which will make procurement more expensive) and expenses associated with other out-of-area operations.

First Absolute MOD Budget Increase Since 2003

3. (U) The MOD's marginal budget increase gives it some breathing space to maintain its scheduled military transformation. Many analysts believed the plan would have required substantial revisions if there had been no increases in defense spending. Projections for the upcoming years are 28.7 billion Euros (FY 2008), 29.1 billion

Euros (FY 2009) and 29.5 billion Euros (FY 2010).

¶4. (U) Despite the current and projected increases, German defense spending will remain well below NATO's target of 2 percent GDP. The MOD will have less flexibility than the increasing numbers might suggest because much of the increased out-year funding will go to existing large-ticket commitments such as the Eurofighter and the A400M.

Good News: Internal Shifts Free Resources

¶5. (U) Confronted with limited political support for increased defense spending, the MOD has been successfully refocusing its resources on the needs of the 21st century. Defense investment was beefed up from 24.5 percent (5.9 billion Euros in 2001) to 26 percent (6.5 billion Euros in 2007). Operational expenditures have been reduced from more than 75 percent in 2001 to about 70 percent in FY 2007 by closing down excess military installations, downsizing obsolete and expensive military equipment (i.e. Germany's tank force) and cuts in civilian support staff.

¶6. (U) New cooperation models with private contractors (joint ventures, outsourcing) resulted in further significant savings in operational expenditure.

Comment: Funding Crisis Not Over Yet

¶7. (U) Chancellor Merkel's expressed desire for Germany to spend more on defense in the long-term remains an aspiration. Despite the increased focus on defense issues in foreign policy (reftel), the increase in defense spending will mainly be absorbed by the effects of the VAT increase, making it extremely difficult for the MOD to initiate or fund new projects.

¶8. (U) Even if the MOD will be able to receive the anticipated out-year increases in defense spending in the 2007 fiscal plan, it will remain hard for the MOD to balance the books: First, large-ticket procurement items will eat up large chunks of the MOD's investment budget, leaving little room to maneuver. Second, an internal report by Inspector General Schneiderhan indicates that the MOD's projections of future operational expenditure might have to be corrected upwards. Third, the MOD is already behind schedule in implementing its ambitious plan to reduce its civilian workforce in order to reflect cuts in military staff during the 1990s. Fourth, demands for increased Bundeswehr support in the fight against terrorism inside Germany could amount to an "unfunded mandate," since the MOD is unlikely to be compensated for its efforts. All in all, Germany still faces considerable challenges in funding a modern military ready to take on the challenges of the 21st century. End
Comment

TIMKEN, JR